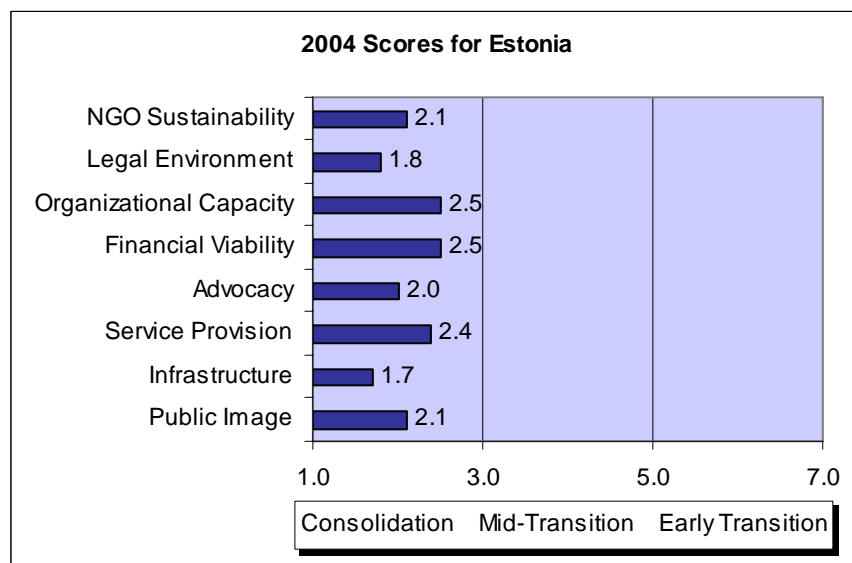
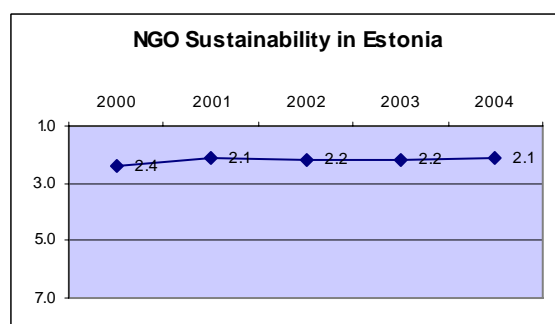


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**ESTONIA**


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**Capital:** Tallinn**Polity:** Parliamentary republic**Population:** 1,340,000**GDP per capita (PPP):** \$12,300**NGO SUSTAINABILITY: 2.1**

The year of 2004 brought the consolidation of several initiatives and included a number of attempts to secure the principles and values of civil society in Estonia. On August 12, 2004, the Estonian Government adopted a plan of action for the implementation of the Estonian Civil Society Development Concept (EKAK) for 2004-2006, thus agreeing to develop and support most important steps needed to secure the sustainability of the nonprofit organizations:

- Establishing structures to increase cooperation between the government and nonprofits;
- Developing clear mechanisms for the involvement of nonprofits in the development and implementation of policies and legislative acts;
- Working out transparent and clear funding strategies to provide for the development of civil society and nonprofits from the state budget;
- Improving the targeted system of tax benefits and charitable giving;
- Enhancing the capacities of umbrella organizations, and their current and potential future role in cooperation with the public sector;
- Creating an adequate register of non-profit organizations;
- Facilitating cooperation between schools and volunteer centers; and
- Supporting infrastructure and networks supportive of civic engagement and civic initiatives.

Media reflected the topics of civil society regularly and mostly in a positive light. People understand nonprofit organizations to be an integral part of the Estonian society, and nonprofits see themselves as the main channels of participation for the public. They understand the growing accountability that accompanies such development. Estonian National TV (together with Baltic-American Partnership Program) portrays principles of good citizenship on national media. County Development Centers provide counseling and training to local governments, local businesses and local nonprofits on a regular basis and are supported by the state budget. Projects undertaken by nonprofits include good governance, board development, quality

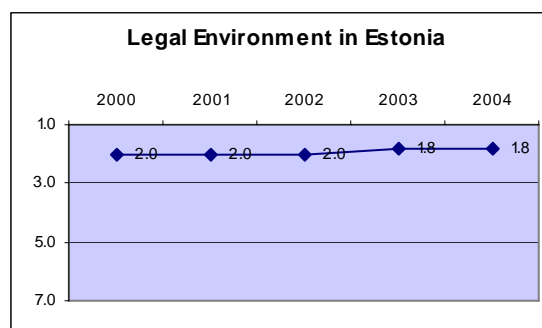
management, member involvement, public services delivery by nonprofits, and corporate social responsibility. These few specific examples demonstrate the health of the Estonian nonprofit sector.

In a 2004 article about governance in Estonia, Sociologist Juhan Kivirähk from FAKTUM stated that Estonian civil society is well developed *in spite* of public sector support, meaning that Estonian nonprofits themselves have aimed to improve the condition and participation of civil society in the country's development and have succeeded. They have succeeded, over time, to get the public sector and business sector involved and interested as well.

## LEGAL ENVIRONMENT: 1.8

The large number of NGOs per capita in Estonia—a total of 21,000 registered nonprofit associations and foundations (14 organizations per 1000 people)—is proof that current legislation allows for easy registration of associations and foundations. Nonprofits are registered according to one of three laws: the Act on Associations, the Act on Foundations, and the Law on Obligations (for non-registered organizations). Specific governance duties and obligations are detailed in other laws such as the Law of Parties, the Law on Apartment Associations, and the Law on Trade Unions. The legal requirements for all organizations, irrespective of their size and founders, are the same. It has been argued that to treat the self initiated-citizens' associations on the same basis as, for example, associations of business organizations, is unjustified. Furthermore, nonprofit associations and foundations created by the public sector cannot be treated as civic initiative organizations, nor do they qualify for tax

benefits or promotion. Therefore, including citizens' associations into current legislation would not necessarily resolve these problems, and might inhibit legislative clarity.



Like any legal entity, nonprofits must also act in accordance with the Income Tax Law, the Value Added Tax Law, and the Accounting Law. The laws guarantee independence from the state, freedom of speech and the right to profit. There is no legal separation between public benefit and mutual benefit organizations. Article 11 of

the Income Tax Law defines the public interest to a certain degree. However, the regulations that govern whether an organization is able to benefit from income tax incentives, as allowed for by Article 11, do not sufficiently differentiate between organizations acting in the public interest and those acting for private interests. Regarding financial management systems, independent financial audits are required by law from foundations, but not from associations (although some larger associations also perform independent audits).

Although donations can be made to any organization, up to any amount, tax deductions are limited. Individuals may deduct income tax on documented gifts and charitable contributions only to those public benefit organizations on the Ministry of Finance list (according to the Income Tax Law). Deductions from individuals are limited to 5% of their previous year's taxable income. Corporate donations made as charitable contributions to public benefit organizations on the Ministry of Finance list can be deducted one of two ways: 1) to deduct up to 3% of the total remuneration paid to employees in the previous calendar month; or 2) to deduct up to 10% of reported profits from the previous year. Businesses

in Estonia only pay income tax on dividends and on non-business related costs. Donations to nonprofits fall in the latter category.

The main legal impediment concerns the need to regulate voluntary work. Nonprofits that include volunteers in their activities are dissatisfied that the term "volunteer," arguing that it lacks the definition and content that ought to be clarified by legal norms and protected by law. The Dictionary of Civil Society, recently published by the Estonian NGO Roundtable, however, helps to regulate the most common terms in the field that have thus far remained vague.

Joining the EU has not had a great impact on the legal environment in Estonia, although one significant change involves the Value Added Tax (VAT) Act. NGOs are no longer eligible to a VAT refund on European-funded projects. Otherwise, the legal environment has remained the same. The Estonian Law Center's Internet forum, Themis, carried out a survey in the fall of 2004 on laws, which concluded that, existing laws are coherent, but the overall understanding of them needs to be improved.

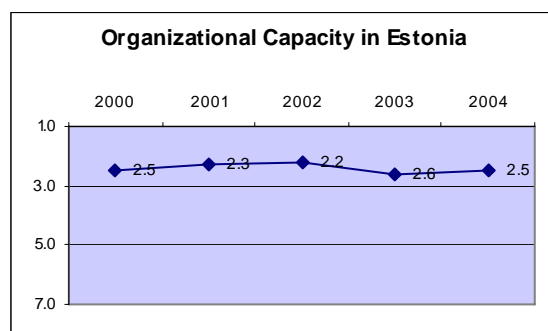
### **ORGANIZATIONAL CAPACITY: 2.5**

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Most Estonian NGOs have a clearly defined mission and vision that focuses on the current situation and specific target groups. Most NGOs rely on project-based funding, making strategic planning, especially for the long-term, a challenge. Strategic planning is, however, recognized as an important process and organizations often hire external experts to facilitate the process.

Although laws outline the general structure of NGOs, they do not prescribe internal management structures. Many organizations rely on one or two leaders, which can lead to problems when these individuals leave their positions. Though management practices tend to be transparent, there is a general lack of participation in decision-making from staff and volunteers. Together with the Latvian NGO Center, the Network of

Estonian Nonprofit Organizations (NENO) provided training to NGOs on good governance, accountability, sustainability, and board development. It was very successful and reached both umbrella organizations (15) and potential trainers (8). Based on the results of the project, NENO will continue with a project to include more organizations across Estonia to secure that a critical mass of influential organizations are properly trained.



With the goal of creating an advocacy-savvy Estonian nonprofit sector, the Estonian Law Center (ELC) has initiated an advocacy training program for 200 such organizations. ELC performs a thorough, interactive training including problem analysis, coalition building, public and institutional engagement, media relations and lobbying. The program is an ongoing process during which the participating organizations attend social events allowing them to share their experiences and form a strong advocacy group identity.

Like in many countries, NGOs suffer from insufficient staff and unskilled volunteers. Though volunteers are valued, organizations go not take advantage of their full potential. The training opportunities available NGOs are high quality and considered sufficient.

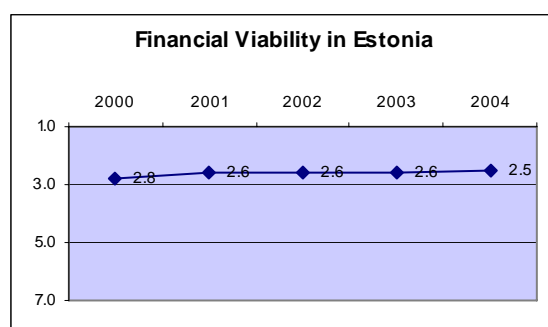
Various trainings are offered through NENO, development centers, local governments and the European Movement. For more tailored trainings, NGOs often turn to the private sector. Special grants are awarded by local governments for local trainings, study visits and trainings abroad. In spite of these opportunities, NGO staff is generally under-skilled and overburdened. As a result, salaries are often a contentious issue within the sector.

NGOs are generally adept at using computers and the Internet, as hardware is affordable and Internet access is available countrywide.

Two programs initiated in 2003 and that have become very active in 2004, are working to build the capacity of the NGO sector. The first, launched by the Charities Foundation ([www.heategu.ee](http://www.heategu.ee)), is *The Deskmates* initiative, that pairs NGO managers with executives from the business community for one year. These individuals exchange experiences about organizational management—offering the NGO representative advice for service provision and sustainability, and offering business leaders an opportunity to donate three hours each month to social service. The second initiative is the Tartu County Chamber of Nonprofits, which has the mission of assisting in the gathering and disseminating of information to NGOs on a local level, coordinating NGO activities with local governments, and representing nonprofits on a state level. Nonprofits assist in these processes by sharing their existing resources (e.g., rooms and equipment), and are looking to fund funds to provide the Chamber with a part-time coordinator.

**FINANCIAL VIABILITY: 2.5**

Estonian NGOs are funded by a variety of sources: membership dues, public sector appropriations, grants, project grants (financed by local and international foundations), payment for products and services, and donations from private persons and businesses. Indirect assistance comes in the form of tax allowances and in-kind contributions. Another important resource for the associations is the contribution of time and energy by members and volunteers. In general, however, NGOs do not have diverse sources of funding; the norm is to have one big donor. There are exceptions, including Estonian Chamber of Disabled People and NENO, and NGOs are becoming increasingly aware of the necessity of having multiple donors among NGOs.



In 2004, the fundraising situation has improved. Many NGOs benefit from loyal donors, ongoing partnerships and increased member support. The Baltic-American Partnership Program (BAPP) has also solicited applications from NGOs for infrastructure support, member development, local development, and the

promotion of EKAK—with a budget of USD 400,000. This year, earned income for NGOs has also increased, especially in the social, cultural, sport and liberal education fields—noteworthy support partnerships include the Altmõisa Guest House which contributes to community projects, Forselius Travel Agency which supports the B.G. Forselius Society, and Von Krahle Bar which supplements the Von Krahle theater in Tallinn. The private sector has also been actively involved in supporting NGOs, including the work of Charities Foundation mentioned above.

The EKAK (Estonian Civil Society Development Concept), was drafted between 1999 – 2002 (adopted by the Estonian Parliament in December 12, 2002), and is a document that defines the complementary roles of public authorities and civic initiatives, principles of their cooperation, and mechanisms and priorities for cooperation in shaping and implementing public policies and building civil society in Estonia. One of the goals of its 2004 activity plan was to establish transparent funding mechanisms to support civil society organizations with state funds. Local support for NGOs is relatively good (though varies by region) as local governments increasingly recognize the work of NGOs, and issue contracts for services. In addition, local community foundations have been established in three regions in Estonia (Paide, Peipsi and Viljandi)

**ADVOCACY: 2.0**

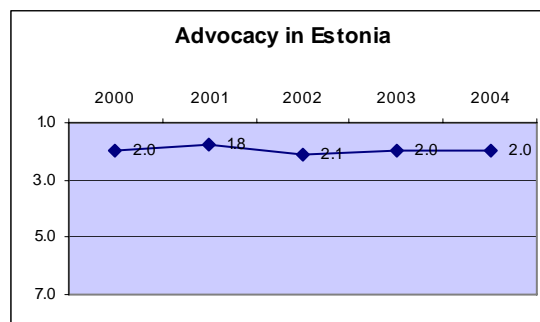
Participation in the political process is most common among larger NGOs. Most draft

laws are forwarded to NGOs for comments, but frequently NGOs are given very short

period in which to respond. In some cases, NGOs have attempted to impact the law-making process in public by organizing public seminars and forums, analyzing the impacts of the drafts on the air, publicly asking questions of politicians, and by broadcasting expert opinions. As an example of NGO involvement in the political process, NENO has been working actively with the Ministry of Finance to change the public benefit status of nonprofit organizations in the Income Tax Law. With support from the ICNL and professional expertise from the law firm Raidla & Partners, NENO has prepared an amendment to the law, presented it to the nonprofits, and lobbied it in Parliament. We expect it to be submitted to the parliamentary process in the beginning of 2005. Another example is the current work of the Joint committee of the Estonian Civil Society Development Concept (EKAK), where representatives of both the government and NGOs work on implementing EKAK principles. All materials related to this cooperation are available on the Ministry of the Interior website ([www.sisemin.gov.ee](http://www.sisemin.gov.ee)).

“Participation” was a common theme in 2004, with the State Chancery promoting the concept among civil servants. As a result, two projects encouraging participation between the state and civil society were initiated: the Estonian-Danish joint project “Strengthening Cooperation Between the Estonian Public Sector and Business Associations” was commissioned by the Ministry of Economic Affairs and Communications, and Open Estonia Foundation (OEF) has commissioned a

project entitled “Participation and Consultation in the Decision-Making process: Research, Analysis and Recommendations.” The study will be finished by the fall of 2005.



Issues-based coalitions of NGOs have been formed in Estonia; those active in 2004 include NGOs both supporting and fighting EU membership, the Council of Estonian Environmental Associations, and the Estonian Roundtable of Estonian Non-Profit Organizations. The Roundtable is a public and open form of co-operation for Estonian non-profit organizations (non-profit associations, foundations, informal partnerships), which was established for discussing the principal issues and forming opinions concerning the non-profit sector, as well as for protecting the interests of the sector and its constituent organizations. Grassroots advocacy efforts are also underway, including social action to protect an ancient sacrificial site from the development of a skiing center, to protect ancient trees on a street in the Tallinn city center, and to promote a car-free day in Tallinn—among many others.

#### **SERVICE PROVISION: 2.4**

Compared to the previous year, service provision provided by NGOs has remained

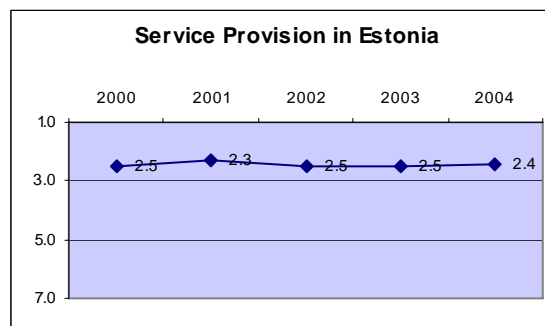
basically unchanged, though the range of goods and services offered has diversified



due to EU membership and demand from the international community. Nonprofits in Estonia offer training, consulting and counseling services. Nonprofits active in the social sectors offer services that are important to local communities and are supported by local governments (services to people with disabilities, children, people in need, etc). In most cases, their clients are individuals and other nonprofits, and also local governments and local businesses. In Estonia, any person of legal age may act as a nonprofit association provided that s/he does not earn profit, so the range of services nonprofits offer is very diverse.

In most cases the services provided by NGOs are much needed, but is a lack of systematic thinking about long-term results. NGOs are increasingly better at serving the needs of the communities, in large part due to recent trainings on assessing the needs of target populations. NGO need to learn to better recover their costs, as offering services in exchange for payment remains a relatively novel approach among nonprofits in Estonia. Budget planning has become more detailed as donors have demanded a better evaluation of necessary costs. Therefore, it is necessary to improve the

marketing skills of nonprofits in an effort to make them more financially independent.



Government recognition and support differs between areas and levels. On the national level, relations tend to be formal and institutionalized; on the local level relations occur on a more personalized basis. Grants and contracts are awarded to NGOs so that they might offer needed services, however, in many cases the funding is inadequate to reach the project goals. Contracts, usually valid only up to one year, make hiring highly qualified staff and funding investments problematic for NGOs, resulting in low quality service. A number of local governments have recognized the potential contributions of the nonprofit sector, but a lack of awareness is still widespread.

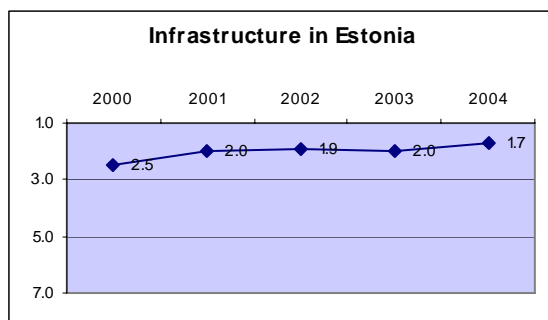
### INFRASTRUCTURE: 1.7

In 2004, because of funding cuts, NENO scaled down its nine resource centers into fifteen NGO development centers, one for each county. Though previously the centers provided counseling and development activities, now they simply provide the former (and often with minimally trained staff). As a result of the downscaling, the governments recognized the need for these centers and began providing funding. Some centers, however, don't receive any state support (e.g. the Tartu Voluntary Center),

but they do receive local grants from such organizations as the Open Estonia Foundation, the Baltic American Partnership Program, Enterprise Estonia Local Initiative Program, and other foundations.

Currently there are well-developed partnerships being carried out on a national level in various fields (e.g. the Estonian Roundtable of Estonian Non-Profit Organizations, the Concept of Estonian Civil Society). These organizations are working

together on EU issues and cooperate when providing opinions to the ministries regarding the state budget, the national development plan (a plan for the utilization of EU Structural Funds), and similar issues. On a regional level, NGO roundtables are organized in Tartu, Narva, Hiiumaa, Viljandi and Lääne counties (of 15 total counties). There is a growing appreciation of the strength and benefits of engaging in cross-sectoral partnerships, as well, though there is a lack of guidance and models for such collaboration. In addition, many private sector organizations are seeking partners among the nonprofit sector, and NENO has been active in negotiating discounts from businesses for its members. Other umbrella organizations have since pursued similar arrangements.



NGO umbrella organizations have received special attention in 2004, particularly in regards to their role as liaison with government entities. Umbrella organizations are more able to organize citizens and interest groups, and to relay coherent, issue-specific opinions in a professional manner. NGOs are involved in the development plans of a number of local governments as well.

In the fall of 2004, a conference on Corporate Social Responsibility was organized by the Estonian Association of Small and Medium Sized Enterprises, the Chamber of Industry and Trade, the Network of Estonian Non-profit Organizations, AIESEC-Estonia and the Estonian Business School. The conference brought together more than 150 people, and several businesses have since begun developing their CSR strategies. Their next conference is planned for the spring of 2005.

## PUBLIC IMAGE: 2.1

In general, the media does not offer a positive analysis of the role of NGOs. That said, there are national and local level variations with media coverage; local media tends to cover NGOs positively, while national media tends to present a less positive image. Different media also have different perspectives, radio and television using a positive lens, and written news tending towards a more critical view. NGOs now seek out opportunities to talk with the various media and take advantage of public image opportunities, and some NGOs have

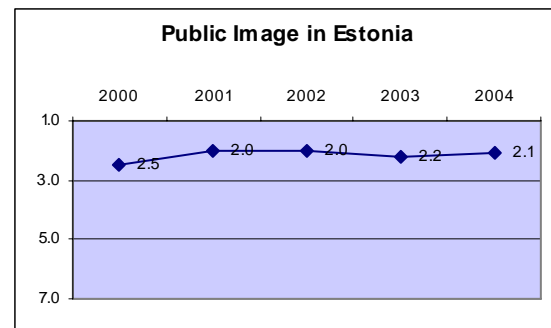
even hired PR specialists to ensure that their image is more professional. A number of media sources publish NGO news for free or at a minimal cost; it is dictated by law that information related to nonprofits be given coverage on national television and radio stations at no charge. Local governments and some businesses also cover the costs of advertising for NGOs.

Although NGOs are often associated with difficult and uncomfortable themes, the NGOs do maintain a positive perception



when compared to the perception of the government. Although the common perception of NGOs in both the public and private sectors may not be fully clear, it is generally positive. The public at large, however, does not fully understand the concept and goal of the nonprofit sector, and is therefore somewhat apathetic, as was proven by a study conducted in 2003 by the research center FAKTUM. Still, a remarkable change in public attitudes towards and expectations to the role of nonprofits has occurred since 1999 when the first study with similar questions was conducted. Such change has occurred in large part because of the work done by leading nonprofit organizations that promote, support and develop the general environment and infrastructure of nonprofit organizations (NENO, Open Estonian Foundation, BAPP, etc.). The government's image of the nonprofit sector has improved as well, as a result of the stable structures and clear communications presented by the institution representing NGOs. The government's understanding of NGOs is best at the local level where most interaction takes place: the transfer of public services to the nonprofits, involvement of nonprofits in the local development plans, and cooperation between the local governments and local nonprofits. At the national level, the relations remain distant, with every

ministry wanting to develop its own policy of engagement. However, the State Chancellery's working group aims to develop the basis for uniform involvement model.



The mechanism of self-regulation demonstrating transparency in the NGO-sector is the Code of Ethics (yet no sanctions currently exist). The Estonian Roundtable of Estonian Non-Profit Organizations adopted it in 2002, and many organizations use it for their own governing purposes as well. The quality of annual reports has generally improved, and the bigger NGOs now make their annual reports available over the Internet. The Internet is a common tool for representing the NGO sector, and there are a great many sites where people are involved both actively and passively in presenting and commenting on the nonprofit sector in Estonia.